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Guide to the Alberta Farm Account Book. 2



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ALBERTA DEPARTMENT OF AGRICULTURE

Economics Division

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**GUIDE TO THE
ALBERTA FARM
ACCOUNT BOOK**

BY

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PREFACE

The recording of information regarding sales, expenses and production of the farm is the first or basic step towards the use of farm records in the decision-making process. The farm account book — Alberta Department of Agriculture — has been designed for the systematic recording of information that is useful for an analysis of the farm business as a whole or for the detailed analysis of any individual enterprise. The book also has the facility to record receipts, expenses and capital cost for income tax purposes.

This publication is designed as a reference for farm operators who use the farm account book — Alberta Department of Agriculture. The publication contains information regarding the theory of record keeping for management purposes. It has been designed to supplement the instructions in the account book and to illustrate how certain types of entries are made. Wherever possible, examples have been used to illustrate the theory and the method of recording information.

This publication was written by Mr. M. Galts, Agricultural Economist, with the Farm Management Branch. Some information was drawn from the publication, "How to Complete the Prairie Provinces Farm Account Book", which was written in 1968 by Mr. I. Hall.

The efforts of the professional staff of the Farm Management Branch who reviewed the publication are acknowledged. In addition, we acknowledge the efforts of the clerical and typing staff of the Economics Division.

B. A. HACKETT, Head
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INTRODUCTION

Record keeping can be a rewarding task if the records are designed and kept to produce information for the decision-making purpose. The Farm Account Book — Alberta Department of Agriculture will produce the required information when kept accurate and complete.

Keeping farm records will not make a farmer a better manager, but records that are analyzed and studied provide insight into business operations, potential profit areas and current problem areas. Farm records are like any other tool; they must be used correctly if their value is to be realized.

REASONS FOR KEEPING FARM RECORDS

Record keeping has always been essential for management of a farm unit, even if past records consisted of a mental record or a simple listing of important details. However, with the increasing complexity of farm operations, the ever increasing amounts of cash flowing through the business, and the large amounts of credit used by today's farms, there is a greater need for a formalized record system. Today, an appraisal of the farm business is likely impossible unless good farm records have been kept.

Good farm business records can be used as:

1. a diagnostic tool for:
 - a) identifying management problems
 - b) identifying management choices
 - c) obtaining information for testing management choices
 - d) deciding what the individual wants, likes, and dislikes
 - e) deciding what, how, and how much to produce.

2. an indicator of business progress for:
 - a) determining net worth change
 - b) calculating farm and personal income
 - c) determining returns to labor, management, and investment
3. a service tool for:
 - a) determining the amount the operator can afford to pay for land
 - b) obtaining credit
 - c) calculating rental or partnership arrangements
 - d) estate planning
 - e) income tax calculations

Analysis of farm records can result in the identification of management problems which may be remedied by careful planning. Records can be used to evaluate the effects of new plans and to isolate financial problems which may result from them. Therefore, analysis of the farm records should help to improve the management, organization, and efficiency of the farm business as it develops.

TYPES OF RECORDS

To provide the necessary information for analysis of the farm business, five basic types of records are necessary. These are:

1. an inventory record
2. a depreciation schedule
3. an income and expense record
4. a cash receipts and expenditures record
5. production records

The Alberta Farm Account Book combines the inventory, depreciation, and many of the production records in the "Inventory" section of the account book. The inventory accounts are broken down into enterprises where possible. In addition, the operator's and landlord's assets involved in the farm production can be recorded. Pages for household and personal inventory, accounts payable, and accounts receivable are also provided.

Production records are not required for financial calculations but are essential for a physical and financial analysis of the farm business. Production records include the farm map, land use and crop production records, feed records, supply records and portions of inventory accounts which are useful for production analysis.

The expense records are divided into farm expenses and household expense. The farm expense section (pink) provides the breakdown of expenses between enterprises — an essential division for financial analysis of individual enterprises. The household expenses are in a separate section (white) to avoid confusion between farm and non-farm expense. It is necessary to record household expenses to account for the total cash outflow during the year.

All receipts are recorded in the blue section of the account book. Farm receipts can be separated by farm enterprise and between operator and landlord. Non-farm receipts and capital sales are also recorded in this section.

ENTERPRISE RECORDS

An enterprise is a particular segment of the total farm which produces revenue and incurs expense. It may be farm crop production or a more specific breakdown such as wheat production or the hog feeder enterprise. The combination of all enterprises on the farm makes up the total farm unit. The record book provides pages for many types of enterprises.

A main use of a record keeping system comes from its ability to separate information about each enterprise. This information allows comparisons of profit levels among enterprises. These comparisons are particularly helpful for future decisions regarding changes in production methods or capital expenditures.

To accomplish an enterprise separation of records, each of the major types or records such as inventory and expenses are broken down into separate accounts in the Farm Account Book. Many expenses can be charged directly to an enterprise. Concentrate used for a hog enterprise or the fertilizer applied to a particular crop are examples of this. However, some expenses such as fuel for the truck may be shared by more than one enterprise. This type of expense is placed in a general account which may be distributed according to use to each enterprise at the end of the year.

KEEPING THE RECORDS

Farm records are usually kept for two purposes:

1. to provide information required for filing income tax returns
2. to provide information for decision-making

Records kept for taxation purposes *must* be accurate but should take advantage of every legal method available to minimize taxable income. Records kept for decision-making must be accurate and should be kept following the accrual method, so that the true performance of the farm business can be measured.

For analysis purposes, revenue and expenses should reflect actual sales and purchases. These figures differ from the cash receipts and cash disbursement figures recorded for taxation purposes.

A conscientious effort must be made to value farm assets at a realistic market value, record physical production figures regularly and completely, and record revenue and expenses accurately.

BUSINESS YEAR

Most farmers keep their records on a calendar year basis. This has the advantages of:

1. the accounting (fiscal) period coinciding with the tax year, and
2. facilitating early completion of the analysis by the Farm Management Branch. This means that the results are available for use in planning production adjustments prior to the new crop season.

RECORDS AND DECISION-MAKING

The farm records become more useful as each year's analysis is completed. The chances of making sound decisions about these enterprises, based on only one year's records, are not very good unless there are rather serious or glaring adjustment problems. Records for a number of years will show which enterprises are worth expanding and which should be reduced in importance. A series of records increases confidence in the reliability of the information for making adjustment decisions. Because some decisions about future action are based on past performance, the more factual knowledge there is about the past for a particular farm the greater the certainty there is about the reliability of the information used and decisions made.

KEEP RECORDS CURRENT

The farm record book should be kept up to date. There are three main reasons for this:

1. there is less chance of forgetting an expense item that does not have a corresponding invoice or bill.
2. the current production activities can be easily recalled.
3. the job of record keeping is less tedious and less likely to be neglected.

If the farm record book is to be of maximum use it must be kept current, complete, and accurate.

KEEP TRACK OF TRANSACTIONS

The best way to prevent the neglect of a transaction is to record all income and expenses in writing. This can be done by using cheques for payment of expenses. The item purchased can be written on the cheque at the time the purchase is made. This will speed up the entry of the expense in the account book as the cancelled cheque can be used as a bill. For expenses paid by cash, a bill should always be obtained. Recording of income can be simplified if a duplicate copy of all bank deposit slips are kept. For cash income, a duplicate of all bills of sale should be retained. These written records may seem to be a nuisance, but this extra effort improves accuracy and speeds up record keeping procedures.

MAINTAIN PHYSICAL RECORDS

By recording what goes on during the year, you will likely get a better insight into the operation of your business. It is up to you to get the physical records on your own, because there are no cheques or bills for such things as livestock born, grain fed, crops harvested or acreage seeded.

INVENTORY

An inventory is an itemized listing of all assets and liabilities, and an evaluation of them at a particular date.

Assets are all items which have a value to the farm or its operator at the time the inventory is taken. This includes the capital assets of land, buildings, and machinery as well as current or short term assets such as supplies of feed, fuel and crop production and the liquid assets of cash, bonds and accounts receivable.

Liabilities include all forms of debt owed by the farm operator. This includes long term mortgages, intermediate term liabilities and short term bills unpaid at the time inventory is taken.

For use in the Alberta Farm Account Book, the beginning inventory will be taken as of January 1st of the year which the farmer is planning to participate in the system. The ending inventory should be taken on December 31st of that year. This ending inventory will be used as the January 1st beginning inventory of the following year.

WHY SET UP INVENTORY ACCOUNTS?

The inventory shows the net worth of the individual involved, the total value of resources used by the business, and provides a starting point for financial and production analysis. Recognizing changes in inventory over the accounting period is necessary to calculate actual income earned and expenses incurred during the period. Often, expenses have been paid to produce crops or livestock that have not been sold by the end of the year. If only cash sales were recognized as income, much of the production for the year would not be accounted for. Also, cash payment of expenses may bear no relationship to actual expenses incurred to produce farm products during the particular year.

Inventories are necessary to account for gains or losses, such as improvements to land or animal death loss, during the year.

When changes in inventory are considered as adjustments to income or expense, a closer relationship between actual expenses and income is obtained. Therefore, a more realistic net income is observed for the period being considered.

Depreciation is an expense of the farm which must be deducted from income earned on an annual basis. To facilitate reliable computations of depreciation the inventory of depreciable assets is used, and the computations are done on the inventory pages in the Alberta Farm Account Book.

TAKING INVENTORY

There are two basic steps to taking inventory:

1. physical listing of inventory items, and
2. valuation of inventory items.

The physical listing of all assets and liabilities at the time the inventory is taken includes listing the number of cattle on hand, the number of bushels of each type of grain, each item of machinery or equipment, each parcel of land and any other asset or liability existing at that time. Each type of asset must be listed on the proper page in the account book. A cultivator or seed drill would be recorded on the "Inventory of Machinery and Equipment Used in Crop Enterprises," page (Ø-6). Whenever possible these forms provide a separation of different types of inventoriable items and allow separation of assets according to the enterprise the asset is used for. If an asset is used for several enterprises, it should be placed in a more general account which covers all of these enterprises, for example, "Inventory of Machinery and Equipment used in All Enterprises," page (Ø-5).

A machine used in all enterprises would be recorded on page (Ø-5). However, if it were used only for crops, it would be listed on page (Ø-6). If machinery or equipment is used only for a specific type of enterprise, it should be listed on the particular enterprise inventory page. For example, an automatic feeding system for hogs would be listed on the hog enterprise page (page Ø-13 or Ø-14).

Note that you **LIST EACH ITEM ONLY ONCE**. If an asset is listed under a general heading you do not list it again under a specific enterprise where it may be used a portion of the time.

A count of most assets is possible, however, some items such as feeds and crop production must be measured to determine the quantity on hand at the date of inventory. A number of methods which can be used to measure the amount of these commodities on hand are shown on page five of the account book. It is important that the same technique be used each year to assure consistency of measurement. This minimizes the possibility of showing a change in inventory which did not actually occur.

All types of feeds and crops are recorded on page (Ø-16). Each column of this page is to be used for a

separate commodity and the farmer must place his own heading in the "Item or Crop" line. The beginning inventory quantity should be entered in line 4 or 5 and in the column pertaining to the particular commodity.

Inventory of supplies are recorded not only for a record of balance on hand but also to assure that the cost of these expense items is charged to the period in which they are used rather than in the period they were purchased. On page (Ø-15) of the account book, a space is provided for quantity and value of supplies on hand at the beginning and end of the year. For any supplies not listed a new heading may be placed in the blank spaces provided. Record supplies on inventory only once, either on page (Ø-15 or Ø-16).

The livestock inventory pages are set up slightly different than the previous capital asset pages. The top half of each livestock inventory page is used to record all animals which must be accounted for at the end of the year. This includes those animals which make up the beginning inventory as well as those bought, born or transferred into the particular enterprise during the year.

The beginning inventory should be recorded in columns 3, 4 and 5 of the livestock enterprise account forms. For animals which make up the basic herd, record only the number of head as the value of the animals will be based on productivity and age rather than weight. For all other animals record the total weight of each group as well as the number in that group. The need for weight accuracy will depend on the size of the particular livestock enterprise and how much a change in weight would affect the total net worth. Every effort should be made to acquire an accurate weight of animals on inventory – possibly the assistance of a cattle buyer could be gained, or a few animals weighed as a guide.

The second step to taking inventory is the valuation of the physical assets. Valuation is the determination of a value for each of the assets. The value placed on each item should be as close as possible to its market value at the date of inventory. Therefore, transportation and marketing costs should be deducted from the sale value of the assets. The value used for inventory purposes is the net value.

A guide for valuing most inventory items is available on pages 2 and 3 of the account book. However, further clarification is necessary for some items. Capital goods such as land and basic herds, which tend to change market value through the years but which are not depreciated, should be valued at a realistic average of the market price for the past three to five years. If it is necessary to change the value of these items, it should be done between years and not during a fiscal period. The new value should be recorded as the new beginning inventory value but the previous ending inventory value should be left as it was computed from the records in the account book.

Values of buildings and improvements are probably the most difficult figures to compute. With the help of the guide on page 1 of the account book, most buildings can be valued quite accurately. Buildings which are most difficult to evaluate are probably old and represent a very small portion of the value of inventoriable items. These should be valued at replacement cost less accumulated depreciation for the age of the building.

DEPRECIATION

Depreciation is a calculated business cost which is equal to the decline in value of the capital asset as a result of use, wear, obsolescence and reduced serviceability. It is the portion of the purchase price of a capital asset which should be charged as an expense in the particular year.

Depreciable assets include machinery, fences, tools and buildings which are used over a number of years. Therefore, only a portion of the cost of these items should be charged against a particular year. Land and livestock are not depreciated because their values do not regularly decrease from the beginning to the end of a year.

Page 4 in the account book provides a guide to determine rates to use in depreciating farm assets. However, the farmer must estimate life expectancy and salvage value as they pertain to his own situation. The depreciation rate used for management purposes should represent the actual annual cost of the asset to the farm. This may not be the same rate as used for capital cost allowance purposes for tax filing.

When depreciating farm machinery, the "Reducing Balance" method is suggested because it gives a higher depreciation cost to the machine in the first years of life. This closely represents what occurs in the real world situation.

Depreciation on assets purchased during the year should be calculated only for the time period which the asset is on the farm if it is purchased after the normal season of use. If it is purchased before the normal season of use, depreciation for the whole year is calculated. These statements do not apply to the calculation of capital cost for taxation purposes.

CAPITAL GAINS OR LOSS

A column for "Capital Gains or Losses" is present on many of the inventory forms. This gain or loss is the difference between the sale price received and the basic value of the asset at the time of sale or trade.

As asset improvement may result from such things as clearing or breaking unimproved land or adding to an existing building. It must be a value gained from a change to improve the asset. Do **not** enter an increase in asset values due to a change in market value during the year. If asset market values have increased considerably and it is felt a change is necessary, enter the new value as a beginning inventory in the following year.

INVENTORY AND DEPRECIATION EXAMPLES

As an example of an inventory entry let us record a 1968, 2040 brand X tractor, valued at \$6000 at the beginning of the year. Depreciation is calculated by the Reducing Balance method assuming a ten year life. The rate the tractor decreases in value is 20% of the undepreciated value. Suggested rates for various machines are provided on page 4 of the account book.

The steps in making the entry are as follows:

1. Turn to the appropriate enterprise page in the account book. Page (0-5) would be used if the tractor is used in all enterprises.
2. The item "Tractor" is listed on line 9 in column 2 of the form. If an item is not listed, write in one of the blank spaces provided (for example, a second or third tractor).
3. Enter the make (X), year (1968) and size (2040) in the third column on line 9.
4. Enter the value at the beginning of the year (\$6000) in column 4.
5. Columns 5, 6 and 7 are left blank since the machine was owned the whole year and there were no capital improvements made to the machine.
6. Enter the depreciation rate (20%) in column 8.
7. Compute the amount of depreciation to be deducted from the value by multiplying the rate times the value at the beginning of the year ($20\% \times \$6000$) and record this result (\$1200) in column 9. An example explaining the Reducing Balance method can be found on page 4 of the account book.
8. Subtract the amount of depreciation (in column 9) from the value at the beginning of the year (column 4) and enter the result (\$4800) in column 10. This end of year value (\$4800) will be the beginning of year value to be recorded in column 4 the next year.

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INVENTORY OF MACHINERY AND EQUIPMENT USED IN ALL ENTERPRISES *

Line	Item	Make, Model, Size	Value at Beginning of Year	Value of Machines Bought or Capital Improvements	Value of Machines Sold or Traded	Capital Gains or Losses	Depreciation		Value at End of Year
							Rate	Amount	
1.	Automobile - Farm Share								
2.	Automobile - Personal Share								
3.									
4.									
5.	Truck - Farm Share								
6.	Truck - Personal Share								
7.									
8.									
9.	Tractor	X, 1968, 2040	\$6,000	—	—	—	20%	\$1,200	\$4,800
10.									
11.									
12.									
13.									
14.									
15.									
16.									

A second example involves recording an item in inventory accounts which was **purchased during the year**. Assume a brand M, model 608 combine is purchased in September for \$15,000 and the old 1962 combine is traded in at a value of \$4000. However, the beginning value of the old combine is only \$1200. At the time the transaction is made, it is recorded on page (R-17) and (B-12) of the account book as illustrated in the expense and receipts section of this manual. At the end of the year this transaction is transferred to the appropriate inventory account.

The steps to make the entry in the inventory account are as follows:

1. Turn to the appropriate page. Assuming the combine is used only for cereal, oilseed and small seed crop enterprises, page (Ø-7) of the account book is used.

2. The old combine which is traded in has an undepreciated value at the beginning of the year of \$1200. This was entered on line 1.

3. Enter the value received on trade (\$4000) in column 6.

4. The machine was owned two thirds of the year; therefore, two thirds of the total depreciation for the year is charged to the current year. Using a 30% depreciation rate, as suggested in the account book, multiply (.30) by the value at the beginning of the year (\$1200). Multiply the result (\$360) by 2/3 and place the answer (\$240) in column 9.

5. The capital gains or losses in column 7 is the difference between the trade-in value (\$4000) and the undepreciated value of the asset at the time the trade is made. This latter value is equal to the beginning of the year value minus the depreciation in column 9, that is $\$1200 - \$240 = \$960$. Therefore, the value placed in column 7 will be $\$4,000 - \$960 = \$3040$.

6. The value at the end of the year column 10 is left blank because the combine has been disposed of.

MACHINERY AND EQUIPMENT USED IN CEREAL, OILSEED AND SMALL SEED CROP ENTERPRISES

Ø-7

Line	Item	Make Model Size	Value at Beginning of Year	Part of Depreciated Equipment Trade-In Improvements	Value of Equipment Received Traded	Capital Gain or Losses	Depreciation		Value at End of Year
							Rate	Amount	
1.	Combine	M, 1962, 552	\$1,200	—	\$4,000	\$3,040	30%	\$240	—
2.	Combine	M, 1970, 608	—	\$15,000	—	—	30%	1,500	\$13,500
3.									
4.	Swath								

The new combine was owned approximately one third of the year, and, therefore, it must be placed in inventory and depreciated in the current year.

The steps to making this entry are:

1. List the new combine in the blank space in line 2 of page (Ø-7).

2. Enter the make, model and size in column 3.

3. Enter the total value (\$15,000) of the combine purchased in column 5.

4. Enter the suggested depreciation rate (30%) in column 8.

5. Compute the amount of depreciation expense applicable for the one third of the year which the combine was owned. Take the purchase value (\$15,000); multiply by the rate (30%), and then multiply the answer by 1/3. Enter the computed value (\$1500) in column 9.

6. The value at the end of the year is column 5 minus column 9 and is placed in column 10. This value (\$13,500) is used as the value at the beginning of the next year.

Inventory of all **feed and crops** are kept on pages (Ø-16 and Ø-17). Each column is to be used for a separate product such as alfalfa, wheat, barley, feed barley, and so on.

Assume a farmer is not renting land by crop share and he has 12,000 bushels of wheat and 2,000 bushels of feed barley on hand as of January 1st. During the year he produced an additional 8,000 bushels of wheat and 5,000 bushels of barley. However, it was necessary for him to buy 2,000 bushels of barley to feed to his hogs before his own crop was harvested. The value of wheat on inventory was estimated at \$1.50 per bushel and feed barley was worth 70 cents per bushel. During the year 7,000 bushels of wheat were sold and 6,000 bushels of barley were fed.

The steps to recording the entries are as follows:

1. On the top line write the heading "Wheat" in column 1 and "Feed Barley" in column 2.

2. Enter the quantity on hand at the beginning of the year on line 4. This will be 12,000 bushels of wheat in column 1 and 2,000 bushels of barley in column 2.

3. Enter the estimated market value of the products, \$1.50 and 70 cents respectively in line 3.

4. Compute the total value of the products on hand by multiplying the value on line 3 by the quantity on line 4 and enter them on line 1. In this example, the values entered on line 1 would be \$18,000 for wheat and \$1,400 for feed barley.

5. Enter the amount produced during the year (8,000 bushels of wheat and 5,000 bushels of barley) on line 6.

6. Enter the 2,000 bushels of barley purchased on line 8.

7. The total to account for (column 10) is all produce on hand at the beginning of the year plus all grain produced or purchased during the year. It is found by adding together all quantity lines 4 through 9. To compute the amount of feed barley to account for in this example, add line 4 (2,000) to line 6 (5,000) and line 8 (2,000) arriving at 9,000 bushels which is placed in column 10.

g-16

FEEDS, CROPS – BALANCE and CHECKSHEET

Line	Item or Crop		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Inventory at Beginning of Year	Value	Operator	Wheat \$18,000	Feed Barley \$1,400							
2.		Landlord										
3.		Price per Unit		\$1.50	\$.70							
4.	Quantity	Operator		18,000	2,000							
5.		Landlord										
6.	Quantity Produced	Operator		8,000	5,000							
7.		Landlord Share										
8.	Quantity Purchased or Traded	Operator			2,000							
9.		Landlord										
10.	TOTAL to Account For			20,000	9,000							
11.	Quantity Sold or Traded	Operator		7,000								
12.		Landlord Share										
13.	Quantity Spoiled											
14.	Quantity Used on the Farm	Seed										
15.		Livestock (1)			6,000							
16.		Livestock (2)										
17.		Livestock (3)										
18.	Quantity	Operator		13,000	3,000							
19.		Landlord										
20.	Inventory at End of Year	Price Per Unit		\$1.50	\$.70							
21.		Value	Operator		\$19,500	\$2,100						
22.		Landlord										
23.	TOTAL Accounted For			20,000	9,000							

The bottom portion of the form is to account for all produce which is on hand at the end of the year or disposed of during the year. In the above example this is found in the following way:

1. Enter the quantity sold (7,000 bushels of wheat) in line 11.

2. Each livestock enterprise record has a feed report similar to page (Ø-24). This report should be kept on a monthly basis to assure a reasonably accurate record of the amount of feed used in each enterprise. At the end of the year, add the monthly usage and record it in column 15. It is this total which is recorded in either line 15, 16 or 17 of page (Ø-16), depending in which livestock enterprise the grain was used. In this example, assume the hog enterprise was considered as Livestock (1) and record the barley fed (6,000 bushels) in line 15, column 2.

3. Enter the quantity of produce on hand as of December 31st, (13,000 bushels of wheat and 3,000 bushels of barley) in line 18. These ending inventory balances should be determined by measuring the amount of grain on hand.

4. Enter the total accounted for (20,000 bushels of wheat and 9,000 bushels of barley) in line 23. These totals are to be computed by adding the amount disposed of, lines 11 through 17, to the ending inventory, lines 18 and 19. Note that the total accounted for should equal the total to account for (i.e. line 23 should equal line 10).

5. Enter the end of year value in line 21. This is calculated by multiplying the estimated value in line 20 by the quantity on hand shown in line 18.

The **livestock enterprise** accounts are separated into two sections. The top half of the page is used to compute the total number of animals to account for from the beginning inventory, the number bought, the number born and the number transferred in. The bottom half is to compute the total number accounted for which consists of ending inventory, number sold, number died and number transferred out. The number **transferred** section of the form is used to transfer animals into (out of) the particular enterprise from (to) another enterprise.

A dairy herd is used as an example of a livestock inventory account. On January 1st, there were 40 dairy cows valued at \$300 each (of which 36 are milking and 4 are dry), a bull worth \$500, 6 two year old replacement heifers valued at \$200 each, 5 heifer calves weighing 875 pounds worth \$625 and 6 bull calves weighing 960 pounds worth \$360. The milk quota of 1700 pounds is worth \$13,600.

During the year, 2 cows died and 4 of the replacement heifers moved into the dairy herd; 22 bull calves and 18 heifer calves were born and 24 bull calves weighing 3600 pounds and 14 heifer calves weighing 1950 pounds were sold for \$1440 and \$1750 respectively. A new bull was purchased for \$600 and the old one sold for \$400.

At the end of the year there were 37 cows milking, 5 cows dry, 2 two-year old replacement heifers all valued the same as at the first of the year. There were also 5 yearling heifers worth \$180 each, 4 heifer calves worth \$600, 4 bull calves worth \$240 and 1 herd bull worth \$600.

Looking at the dairy enterprise, the entries are as follows:

1. Select the proper enterprise account page (Ø-25) "Dairy Livestock Enterprise."
2. Enter the 36 milking cows in line 1 and column 3 and place their total value (36 x \$300 - \$10,800) in column 5.
3. Enter the 4 dry cows in line 2 and column 3 and place their total value (4 x \$300 - \$1,200) in column 5.
4. Enter the 6 replacement heifers on line 3 in column 3 and their value (\$1,200) in column 5.
5. Enter the calves on hand January 1st including their weight and value on lines 5 and 6 and the number born during the year in column 10.
6. Enter the value (\$500) of the bull on line 7.
7. Enter the milk quota value (\$13,600) on line 9 in column 5.
8. Enter 1 bull purchased on line 7 in column 6 and the value (\$600) in column 9. Ordinarily these values would be recorded from page R-10 in the expense section at the time of purchase and transferred to inventory at the end of the year.
9. Enter the total number to account for in column 10. Obtain this by adding columns 3, 6, 7, and 10 together for each line containing an item.

The totals are as shown in the illustration below.

Ø-25

DAIRY LIVESTOCK ENTERPRISE

(1) Line	(2) Type of Livestock	Beginning Year			(6) Number Bought	Transferred In			(10) Number Born	(11) Total No. to Account For
		(3) Number	(4) Weight	(5) Value		(7) Number	(8) Weight	(9) Value		
1.	Cows - Milking	36		\$10,800	—					36
2.	Cows - Dry	4		1,200	—					4
3.	Heifers (2 - 3 years - Not Milking)	6		1,200						6
4.	Heifers (1 - 2 years - Not Milking)									
5.	Calves - Heifer	5	875 lbs	625					18	23
6.	Calves - Bull	6	960 lbs	360					22	28
7.	Herd Bulls	1		500	1			\$600		2
8.	TOTAL DAIRY LIVESTOCK	58	1,835 lbs	\$4,685	1			\$600	40	99
9.	MILK QUOTA			\$13,600						

Entries in the bottom section of the account form would be completed at the end of the year. In the example above, the entries are as follows:

1. Enter the number sold in column 3, the weight in column 4 and the value in column 6. On line 14 enter the 14 heifer calves, on line 15 enter the 24 bull calves and on line 16 enter the bull sold.
2. Enter the death loss, 2 cows in column 7.
3. Enter the number of each type of livestock on hand at the end of the year in column 9 and their value in column 11 as shown in the illustration.
4. Add columns 3, 4, 7 and 9 to determine the total accounted for which is placed in column 12.

If all information is correct, the total number to account for, (column 11) on the top half of the page should equal the total accounted for (column 12) of the bottom section of the page.

PRODUCTION RECORDS

Production records are included to keep track of the products produced and the resources used to produce them.

Inventory accounts are part of production records as they provide the physical record of assets on hand and show the change from year to year. However, it is also necessary to record the flow of goods such as the quantity used or sold if the causes of inventory changes are to be recognized.

The analysis of good production records will allow:

1. a comparison of enterprises within the farm over a period of years, and
2. a comparison to other similar farms.

These comparisons provide a check on previous planning decisions as well as suggest what action may be taken to improve the operation in future years. Information such as calf crop percentage, pounds of feed per pound of gain, hours per acre, or the hours of use of a machine may be beneficial in recognizing unnecessary expense or increased revenue caused by the management on a particular farm.

Production records are found throughout the account book wherever the quantity or number is requested. However, the forms designed specifically for production purposes are located in the inventory section of the account book.

Prior to each livestock enterprise there is a **feed report page** which is to be used to record monthly feed use. By recording feed used each month, you can obtain a record of the quantities of various types of feed consumed as well as the time of the year they were required.

The **farm map** (page B-22) is provided so that each field can be identified. Completion instructions for this page are included in the account book. The identification numbers from this map should be recorded on page (Ø-18), the **land use and crop production** page. This page provides a record of the crops produced on each parcel of land as well as the farming practices and fertilizer data for each year. Most of this form is self explanatory. However, there are a few columns which may require some clarification. On page (Ø-19) columns 2 and 3 (Rotation) refers to the use of the field in the previous two years. Column 4 refers to the year in which the soil test was taken. Columns 5 through 11 refer to the results of the soil test taken.

If you are using a relatively large amount of your production for feed, it is advisable to have it analyzed for basic feed requirements. Only then can the true value of the feed be realized. A feed analysis can also show what effect fertilizer has on the value of feed. If a feed analysis is obtained, the results should be recorded in columns 18 through 23.

ACCOUNTS PAYABLE AND RECEIVABLE

The accounts payable and accounts receivable serve two main purposes.

1. the correct total of liabilities and receivables is required to compute a current net worth statement, and
2. by combining the change in payables and receivables with cash spent during the year it is possible to check the accrued expenses and receipts recorded during the year.

Accounts payable and receivable are divided into farm accounts and personal accounts for the purpose of farm analysis.

The **personal accounts payable** should be completed from statements received from the financial institutions or business establishments that the money is owed to. The summary of the payments made should equal those recorded in column 12 of the household and personal expense forms.

The **farm accounts payable** form should be completed at the end of the year by transferring the payment totals from page (R-19 and R-20) of the account book to columns 6 and 7 of the farm accounts payable checksheet, page (Ø-45). The money borrowed during the year should be taken from page (B-15) of the receipt section and entered in column 5 of the account payable checksheet under the appropriate

heading or described in column 2. The short term liabilities such as the amount owing for fuel or fertilizer should be completed from the statements received at the end of the year from the various businesses.

The **farm accounts receivable**, page (Ø-42), will not be used by most farmers as most farm sales are for cash. However, if sales are made and credit extended, the balance owing to you should be recorded in this page at the end of the year. Most of the entries are obvious on this page. Capital sales (line 1) are those sales of capital items such as land and machinery; while product sales refer to the sale of farm commodities. The new amount receivable during the year (column 5) refers to the amount of any new sale which increased the receivables on that line. The amount owing at the end of the year (column 7) will be found by adding column 4 and 5 and subtracting column 6 from them. Column 6 and 7 should be transferred from page (B-16) "Money Received on Accounts Receivable," in the receipts section of the account book.

EXPENSES

Expenses are defined as those costs incurred to produce income. These costs are composed of current expense items such as fuel, labor, repairs, or feed which are purchased and used in the same year. Other expenses include depreciation, which is the cost of owning a capital asset for one year's operation and interest payments on debt incurred in the farming operation.

The expense section of the account book includes a record of all expenditures made during the year rather than just expenses as defined above. The pages in the expense section include:

1. Current expenses
2. Capital purchase and expenditures
3. Operator's payments on loans.

The current expense accounts are the largest set of accounts in the section and are to be used for recording most expense items during the year. Pages are provided to allow a separation of expenses into each enterprise wherever possible. However, there are many expenses which cannot be charged directly to any one enterprise. These shared expenses should be entered in a more general account until the end of the year and then distributed between the enterprise accounts incurring a share of the cost.

Having a record of how much it costs to produce particular products is essential if the full benefit of a record system is to be realized. This can be achieved by recording direct expenses to particular enterprise accounts and by distributing the joint or shared expenses between the enterprises in which they are used. Only if all expenses relating to the production within each enterprise are charged against that enterprise can a correct picture be gained of how much each enterprise is contributing to the operator's labor, management, and investment returns.

Capital items purchased during the year are recorded in the expenses section along with their total purchase price. These items must also be recorded in the inventory section at the time of purchase or at the end of the year when the ending inventory is calculated.

The operator's payments on loans are recorded in the later portion of this section. The page provides the necessary breakdown between principle and interest. The interest payments are expenses for the year and are summarized by this record.

ENTERING EXPENSES

Be sure to read the instructions on the first page of the expense section as well as this section of the manual before entering expense items.

Current farm expenses are entered in one of the expense pages (R-1 through R-13). A page is provided for power machinery expense, crop machinery expense, livestock equipment expense, operator's crop expense, operator's livestock expense, miscellaneous expense and hired labor. All expenses for power machinery are recorded on page (R-1 and R-2), even if the machine is used only in a specific enterprise. In the crop machinery and livestock expense pages, columns are provided so that expenses may be charged either to the particular machine or the particular enterprise. This is illustrated in the expense instructions in the account book. Operating expenses such as fertilizer, chemicals, or feed supplements are entered in labelled enterprise pages which should be established when starting on the record system. Hired labor is recorded on page (R-13) which provides the breakdown necessary for income tax, government pension, unemployment insurance, and Workmen's Compensation Board purposes. For expenses which do not belong in any of the above accounts, a miscellaneous account on pages (R-11 and R-12) is provided.

A description of the expense is valuable and should be written in column 3 of the appropriate expense

form. This makes the item easy to find if the information is needed again. The description could include what the item is, the purpose of the item, and who it was purchased from. Also, the price per unit and the quantity purchased may be placed in this column if there is not a specific column for that purpose on the page. Numbering the bills or filing them in order of their dates makes it easy for the bills to be found for reference.

The amount of an expense which is paid in full is entered in both the "Cash Paid" column, (column 4), and the appropriate column for the type of expense. For example, the purchase of car insurance for \$75 would be entered in both column 4 and column 6 on page (R-1). However, if the expense is charged or only partially paid for, only the portion actually paid at the time the transaction is recorded is entered in the cash paid column, but the total expense is listed in the appropriate item column when recorded. When the balance of the bill is paid, the amount which had been owing is recorded in the cash paid column on the date the settlement is made. No entry is made in the other columns because the total expense was previously recorded when the transaction was first made. This keeps the records balanced, and shows the difference between cash flow and actual expenses incurred.

Cash flow is the receipt and expenditure of cash and is often quite different from the actual expenses incurred and income received. A record of cash flow allows you to check accuracy of the farm record system. Although it is advisable to keep track of cash expenditures by recording all bank cheques, the "Cash Paid" column on each expense page will provide an adequate record for cash flow purposes.

EXPENSE EXAMPLES

As a sample entry in the expense section of the account book, consider a grain farmer who on June 15 purchase a set of cultivator shovels worth \$65 cash and also two new tires for the sprayer worth \$100, which he charged on his account at the "M" machine dealer. While at "M" machine dealer' he paid \$200 on his account. Most machines used for grain are used for all types of grain and it was felt that a breakdown of expenses for each machine would be the most meaningful.

The entries for this example would be as follows:

1. Turn to "**Crop Machinery Expense**", page (R-3).
2. Enter a description of the specific machines used in column 7 through column 11. Label column 7 "Auger", column 8 "Sprayer", column 9 "Cultivator", and so on.
3. Enter the transaction for the cultivator shovels in line 1.
 - (a) Place the date (June 15) in column 2.
 - (b) The description (cultivator shovels) in column 3.
 - (c) The amount of cash paid (\$65) in column 4.
 - (d) And the **total** cost of the shovels in column 9.
4. Enter the transaction for the purchase of the sprayer tires in line 2.
 - (a) Place the date (June 15) in column 2.
 - (b) The description (sprayer tires from "M" dealer) in column 3.
 - (c) There was no cash paid therefore column 4 is left **blank**.
 - (d) And the **total** cost of the tires (\$100) is entered in column 8.
5. Enter the payment to "M" machine dealer on line 3.
 - (a) Place the date (June 15) in column 2.
 - (b) The description (payment on account to "M" dealer) is entered in column 3.
 - (c) The amount of cash paid (\$200) is entered in column 4.
 - (d) The rest of the columns are left blank because the cost of the items paid for was recorded when the items were purchased.

R-3

CROP MACHINERY EXPENSES

(1) Line	(2) Date	(3) Description	(4) Cash Paid	Machines Used For *		Machines Used in Specific Crop Enterprise				
				(5) All Crop Enterprises	(6)	(7)	(8)	(9)	(10)	(11)
						AUGERS	Sprayer	Cultivator		
1.	June 15	Cultivator Shovels	\$65					\$65		
2.	June 15	Tires for Sprayer "M" dealer	-				\$100			
3.	June 15	Payment on account to "M" dealer	\$200							
4.										
5.										

When a purchase is made with a portion of the total price being paid in cash and the balance charged, the cash paid would be entered in column 4, and the **total** price would be entered in the appropriate item column.

Suppose a farmer grows cereal grain, forage and silage and considers each a separate enterprise. By labelling columns 7 to 11 of the crop machinery expense page as shown below, he can separate the machinery expense incurred by each enterprise rather than by each machine as the previous example indicated.

R-4

CROP MACHINERY EXPENSES

(1) Line	(2) Date	(3) Description	(4) Cash Paid	Machines Used For * All Crop Enterprises		Machines Used in Specific Crop Enterprise				
				(5)	(6)	(7)	(8)	(9)	(10)	(11)
						<i>Cereal</i>	<i>Forage</i>	<i>Silage</i>		
1.		BROUGHT FORWARD FROM PAGE R-3								
2.										

A second example of expense entries is for **livestock equipment expenses**. Assume a farmer has a hog feeder enterprise and a cow calf enterprise. On April 1st, he purchased a chain costing \$28 for the hog feeder system. He paid cash. On April 3rd, he purchase a new set of blades (costing \$40) for his mill which is used for both enterprises. He paid \$10 down and charged the balance.

The entries would be as follows:

- Turn to page (R-5) in the account book.
- Label the necessary enterprise columns; label column 5 "Hog Feeder" enterprise and column 6 "Cow Calf" enterprise. A third column should be used for "Others" which could contain those items used in both enterprises.
- Record the purchase of the **chain** on line 1.
 - Place the date (April 1) in column 2.
 - Enter the description (chain for hog feeder) in column 3.
 - Enter the cash paid (\$28) in column 4.
 - Enter the **total** cost of the chain (\$28) in the hog enterprise column (column 5).
- Record the purchase of the new set of **blades** on line 2.
 - place the date (April 1) in column 2.
 - Enter the description (blades for mill) in column 3.
 - Enter the cash paid (\$10) in column 4.
 - Enter the **total** cost of the blades (\$40) in the "Others" column (column 5).

LIVESTOCK EQUIPMENT EXPENSES

R-5

(1) Line	(2) Date	(3) Description	(4) Cash Paid	(5) Enterprise <i>Hog Feeder</i>	(6) Enterprise <i>Cow Calf</i>	(7) Enterprise <i>Others</i>	(8) Enterprise	(9) Enterprise
1.	<i>April 1</i>	<i>Chain for Hog Feeder</i>	<i>\$28</i>	<i>\$28</i>				
2.	<i>April 3</i>	<i>Blades for Hammermill</i>	<i>\$10</i>			<i>\$40</i>		
3.								
4.								

The **Operator's Crop Expense** and the **Operator's Livestock Expense** pages are to be set up for each enterprise on the farm and should be labelled accordingly. These operator's expense pages allow an itemized statement of each type of direct expense incurred by that enterprise. The operator's expenses which should be recorded in these accounts are those which would generally be used up within the particular year such as fees or supplies. Do not include expenses recorded in the machinery, equipment or overhead expense pages. An exception to this is fuel which is charged directly to the power machinery account.

The entries in these operator's expense pages (R-7 through R-10) are similar to the previous examples except that the **total cost** of each item is recorded in a column pertaining to a particular expense such as

fertilizer or seed purchases. For some items, quantities are recorded as required for production records.

Livestock purchases are recorded on the livestock expense pages, (page R-10, col. 10 to 13). The hauling and commission expense incurred with the purchase is also entered in this section. Combining these costs gives the total cost of the purchases. **Livestock sales expenses** such as hauling, yardage, etc. that are deducted from gross sales value are recorded in the receipts section, page (B-4) along with the actual sales receipts. However, if these directly related expenses are paid separately, they must be recorded on the livestock expense page.

The **overhead and miscellaneous expense** (page R-11) refers to all the general expenses incurred by the farm. The same procedure is followed for recording entries in this account as was shown in the previous examples. The repairs section of this account includes a column (column 10) for farm home repairs. This column should contain all expenses actually incurred for the home if accurate estimates of household costs are to be obtained and farm repairs not overstated. For tax purposes a somewhat different distribution of household costs may be desirable.

LABOR RECORDS

The legal regulations pertaining to farm labor have made it necessary to keep good financial labor records, particularly if full time or seasonal labor is employed. If the farmer hires an employee for more than 25 days or if the employee earns more than \$250 annually, it is the responsibility of the farmer to deduct income tax, unemployment insurance and Canada pension plan payments from the gross salary of the employee. If the employee is a casual laborer or fits into some of the particular categories it will not be necessary to deduct the above payments.

If an employee is hired on a regular basis, information from the Department of National Revenue and Canada Manpower should be obtained immediately to assure that the appropriate forms are completed and the correct amounts are deducted for each item. The amount deducted will depend primarily on the annual income received by the employee.

The **hired labor** account (page R-13) provides a breakdown of all payments which may be required. It is divided into the employee's section (columns 3 to 9) and the employer's contribution (columns 10 to 14) to facilitate a complete record of the payments which must be deducted from the employee's gross pay. It also provides a record of the contribution payments which the employer is responsible for.

The gross pay (column 3) refers to the direct benefits received by the hired laborer including the deductions from his pay check and the cost of his room and board or housing. The net pay is the gross pay minus all deductions (columns 4 to 8) and is the actual cash received by the hired labor. The total labor costs (column 14) refers to all direct costs incurred for the hired labor by the farmer.

Records for **allocation of labor** must be kept if all costs of production, including labor, for the farm and each enterprise are to be considered. The account book provides separate pages (R-14, R-15 and R-16) for allocation of hired labor, operator labor and family labor. Each page provides columns for the allocation of labor to each enterprise on the farm. If a reasonable estimate of the hours of labor used on each enterprise is to be achieved, an effort should be made to record the amount used each month.

An attempt should be made to calculate the time spent by each member contributing labor to each enterprise. This amount should be placed in one of the columns (columns 5 to 10) with the total number of hours worked being placed in column 4 of the appropriate labor allocation page.

OTHER EXPENDITURES

Capital purchases and expenditures differ from annual expenses because they are expenditures made for assets or improvements to an asset to be used over a number of years. This type of expenditure is entered on page (R-17 or R-18) at the time of purchase. At the end of the year, these purchases are transferred to an inventory account. Those expenditures such as land clearing, breaking, etc. which can be deducted as an expense for income tax, should still be recorded in this section. They should be treated as a capital expenditure for farm management purposes, and as a deductible expense for income tax purposes.

The example, used in the inventory section, of a combine purchased in September for \$15,000 (page 15 of this manual) is also used here to show entries required in the capital purchases and expenditures account. He made a \$6000 down payment when he purchased the combine.

The required entries are:

1. Turn to page (R-17) of the account book.
2. Enter the date of purchase (Sept. 10) in column 2.
3. Enter the description in column 3.
4. Enter the cash paid (\$6000) in column 4.

5. Enter the total value (\$15,000) in column 7.
6. At the end of the year, transfer this item to the inventory section as shown by the example on page 15.

CAPITAL PURCHASES and EXPENDITURES

R-17

(1) Line	(2) Date	(3) Description	(4) Cash Paid	(5) (6) (7) (8) Purchases*				(9) (10) (11) Major Improvement Expenditures**		
				Land	Buildings	Machinery	Other	Land Clear- ing, Break- ing, Etc.	Buildings, Fences, Wells, Etc.	Machinery and Equipment
1.	Sept 10	Purchase 17, 1970, 608	\$6,000			\$15,000				
2.										

An account for **payments on loans** is provided on pages (R-19 and R-20). This facilitates the recording of interest paid and provides a continuous balance of the principle outstanding. Each set of three columns is to be used for one loan. For example, columns 3, 4 and 5 could be used for a loan held with the bank. When a payment is made, the interest and principle must be separated and placed in the column with the corresponding heading. The principle paid should be subtracted from the principle owing at that time. The new principle outstanding should be placed on the same line in the Principle Balance Outstanding column. The interest will be totalled at the end of the year and recorded as an expense for that year.

A record of **landlord paid expenses** is necessary so that the total farm can be analyzed and a return to the total farm calculated. Land tax is a typical farm expense incurred by a landlord. If a landlord pays expenses they should be recorded on pages (R-21 to R-24).

RECEIPTS

The term receipts refers to all **income** received during the year. This includes not only income from annual production but also any other income received such as capital sales or non-farm receipts. The receipt section of the Alberta Farm Account Book is the blue section, pages (B-1 to B-16). It contains pages for production receipts for all crop and livestock accounts plus money borrowed or received on account and landlord's receipts from farm production.

The income from annual production (production receipts) are often called cash receipts and are received from sales of grain, livestock or any other products produced annually on the farm. It is necessary to record the full market value of these sales at the time they are made, so that the relationship between receipts and expense is as close as possible for farm business analysis.

ENTERING RECEIPTS

Farm income entries are made in much the same way as are the entries for farm expenses. There should be an enterprise account set up in the receipt section which corresponds to each enterprise account in the expense section. Each type of income should be recorded in the correct account.

The cash actually received from the sale of a product should be recorded in the Cash Received Column. The value of the product should be recorded in the Value Column of the receipts account. This provides a cash record for tax purposes and a value of production record for business analysis.

The **Operator's Crop Receipts** are recorded on pages (B-1 and B-2) of the account book. These pages provide columns for date, description, and cash received, plus two columns for each type of crop, one column for quantity sold and one for value.

Grain sold at an initial price with the final price unknown should be valued at the "initial" price, as a "true value" has not been determined at the time of sale (for example, sales to the Canadian Wheat Board). However, if the final price is known, it should be used to compute the value of the sale even if only a portion of the price is received in cash.

As a sample entry, assume Mr. Brown raised barley, spring wheat, rapeseed and alfalfa hay during the current crop year. In September of the previous year, he had taken out a Wheat Board Advance and to this date still owed \$500.00. On January 3, he sold a carload of malting barley (2,200 bu.) and received \$0.63 per bushel or \$1,386.00. The elevator agent deducted the \$500.00 owing for the Wheat Board Advance from his barley sales. He received a cheque for \$886.00.

On January 10, he sold 400 bushels of No. 2 spring wheat, receiving an initial payment of \$1.21 per bushel or a total of \$484.00.

On January 15, he sold 100 bales of alfalfa hay to a neighbour. He estimated the average bale to weigh 50 lbs. and he charged \$30.00 a ton or \$75.00 for the 2.5 tons of hay.

The \$1,000.00 received from the Wheat Board Advance would have been recorded in September of the previous year as cash income for tax purposes only. If payment is made on a loan during the year it would be deducted from the crop income at the end of the year. Canadian Wheat Board loans are not used directly in farm management records.

The entries for the current transactions would be:

1. Turn to page (B-1) of the account book.
2. Label columns 7 through 14, 'Barley', 'Spring Wheat', 'Rapeseed', and 'Alfalfa Hay' respectively.
3. Enter the **barley sale** on line 1.
 - (a) Enter the date (January 3) in column 2.
 - (b) Enter the description (barley) in column 3 and the unit price received (\$0.63 per bushel) in column 5.
 - (c) Enter the total cash received (\$886.00) in column 6.
 - (d) Enter the quantity sold (2,200 bu.) in column 7.
 - (e) In column 8, record the value determined by the initial payment (\$1,386.00) as the value of the sale.
4. Enter the sale of **wheat** on line 2.
 - (a) Enter the date (January 10) in column 2.
 - (b) Enter the description (wheat), the grade (No. 2) and the unit price (\$1.21 per bu.) in columns 3, 4 and 5 respectively.
 - (c) Enter the cash received (\$484.00) in column 6.
 - (d) Enter the quantity (400 bu.) and the value (\$484.00) in columns 7 and 8 respectively.
5. Enter the sale of alfalfa hay as shown on line 3.

B-1

OPERATOR'S CROP ENTERPRISE RECEIPTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Line	Date	Description	Grade or Protein Content	Unit Price	Cash Received	Crop <u>Barley</u> Quantity Value	Crop <u>Spring wheat</u> Quantity Value	Crop <u>Rapeseed</u> Quantity Value	Crop <u>Alfalfa Hay</u> Quantity Value				
1.	Jan 3	Barley		\$.63	\$ 886	2,200	\$ 1,386						
2.	Jan 10	Spring wheat No. 2		\$ 1.21	484			400	\$ 484				
3.	Jan 15	Alfalfa Hay		\$ 30.00	75							2.5	\$ 75
4.													

The **Operator's Livestock Receipts** are recorded on pages (B-3 and B-4) of the account book except for dairy enterprise accounts which are recorded on pages (B-5 through B-10). Receipts for each livestock enterprise are entered on a separate page to provide the necessary breakdown of receipts between each enterprise in the farm unit.

The entries on pages (B-3 and B-4) are similar to the expense and crop receipt entries in that you record both cash received and gross value. The gross value is the value **before** marketing costs are deducted and should be entered in column 7 or 11.

The common marketing costs such as hauling and commission expenses are often deducted from gross value at the time of sale. For convenience, columns (Cols. 12 and 13) have been provided in the receipts section to record these expenses. If these expenses are paid separately rather than deducted from the gross value at the time of sale, they **must** be recorded in the expense account corresponding to the particular enterprise.

As an example, consider the sale of 27 spring calves on November 3. The total weight of the calves sold was 13,500 pounds and the farmer received a gross return of \$4,320.00 from which a hauling charge of \$65.00 was deducted leaving the actual cash received at \$4,255.00.

Three weeks later (November 24), another 20 calves weighing 9,600 pounds were sold direct to a slaughter house for \$3,360.00 A trucker had been hired and was paid \$50.00 with a separate cheque.

The entries for these transactions are as follows:

1. Record the November 3 sale of 27 calves on line 1.
 - (a) Enter the date and description in the first two columns.
 - (b) Enter the cash received (\$4,255.00) in column 4.

- (c) Enter the number (27) and the total weight (13,500 lbs.) in columns 5 and 6 respectively.
- (d) Enter the gross value (\$4,320.00) in column 7.
- (e) Enter the hauling expense deducted from the gross value (\$65.00) in column 8.
2. Record the November 24 sale of 20 calves on line 2.
 - (a) Enter the date and description in the first two columns
 - (b) Enter the cash received (\$3,360.00) in column 4.
 - (c) Enter the number sold (20) and the total weight (9,600 lbs.) in columns 5 and 6.
 - (d) Enter the gross value (\$3,360.00) in column 7.

The trucking expense of \$50.00 would be entered in the livestock expense (cow-calf enterprise) account, page (R-10) because it was paid separately.

B-4

OPERATOR'S LIVESTOCK RECEIPTS (*Cow - Calf* Enterprise)

7														
1	2	3	4	Livestock Sales					Livestock Product Sales				14	
				5	6	7	8		9	10	11	12		
							Gross Value	Deductions				Hauling		Other
Line	Date	Description, Item	Cash Received	No.	Weight	Gross Value	Hauling	Doc. & Other	Quantity	Gross Value	Hauling	Other	Premiums and Subsidies	
1.	11-23	Spring calves	\$4,255	27	13,500 lbs	\$4,320	\$65							
2.	11-24	Spring calves	\$3,360	20	9,600 lbs	\$3,360								
3.														

The **Dairy Enterprise Section** is divided into livestock sales, milk production and milk sales accounts. Entries in the dairy livestock sales account are similar to those made in the previous example.

The **Dairy Enterprise Production Account**, page (B-6), is not used for income tax or financial analysis, but rather to provide an accurate record of the **total** amount of milk produced by the dairy. To facilitate this record, columns are provided for recording milk used on the farm as well as for recording the amount of milk and cream sold. The fluid milk section is divided into grades. The amount of each grade sold can be transferred directly from the fluid milk sales receipt. Milk used on the farm should be estimated monthly and recorded at the same time the monthly milk receipts are recorded.

The **Dairy Enterprise Receipts** are recorded on page (B-7) of the account book. As in the production account, a column is provided for each grade of milk sold as well as any miscellaneous or cream sales. The value of milk sales (column 3 to 8) should be recorded monthly from the milk receipts. If other dairy products are sold they should also be recorded monthly.

The net value of sales (col. 13), is the total value (col. 10) minus deductions from the cheque such as hauling and fees (columns 11 and 12). If personal accounts payable have been deducted from the milk cheque for such things as butter or other household items, they must be added back into the net value of sales.

The entries made in these accounts should be made at the time of payment so that the cash received within the tax year will be recorded correctly. There is a lag of about a month between when the cash is received and when the production actually occurred which could distort the farm management picture. If there has been a substantial change in production between December and January, a correction should be made to show the actual production over the twelve month period in which the expenses are incurred. This will provide a more accurate picture for farm management purposes.

Receipts not recorded in a crop or livestock account but which are farm income for the current year are entered in the **miscellaneous receipts**, page (B-11). This account should include items which are taxable income such as crop insurance claims, livestock insurance claims, wheat board payments, patronage and acreage payments and any others.

It may appear that some of these items should be charged to specific enterprise accounts such as wheat board payments to the crop account. However, this type of receipt is not the result of the current year's production and therefore should not be included as revenue from the enterprise for farm management purposes. For income tax purpose, they are included in the gross income for the current year.

Receipts such as **Operator's Capital Sales** or **Off Farm Earnings** are recorded on page (B-12). The separate account for off farm earnings is necessary to avoid confusion between private and farm income. This account would include such receipts as wages earned off the farm or interest received on private investment.

The **Operator's Capital Sales** account should be used for recording sales or trade of capital assets. The receipt of an insurance claim on a capital asset is treated the same as a capital sale and is also entered in this account.

As an example, consider the trade-in of the 1962 combine used as an inventory example (page 6). This machine was on the beginning inventory at \$1,200.00 but was traded in September for \$4,000.00. The entry for this transaction would be recorded as follows:

1. Turn to page (B-12) in the account book.
2. Enter the date (September) in column 2 and the description in column 3.
3. Enter the cash value received (\$4,000) in column 4 and the value of trade-in (\$4,000) in column 7.
4. Enter the capital gain (\$3,040) in column 8. (The combine was owned two-thirds of the year and was being depreciated by 30%. Therefore, the depreciation for the year is $1200 \times \frac{2}{3} \times .30 = \$240$. The capital gain is the value received minus the undepreciated value, that is $\$4,000 - \$960 = \$3,040$).

B-12

OPERATOR'S CAPITAL SALES

OFF FARM EARNINGS

(1) Line	(2) Date	(3) Description	(4) Cash Value Received	Value of Sale or Trade-In				(9) Capital Gain or Loss	(10) Line	(11) Date	(12) Source	(13) Cash or Value Received
				(5) Land	(6) Buildings	(7) Machinery	(8) Quota Value					
1.	Sept.	1962 Combine	\$4,000			\$4,000		\$3,040	1.			
2.									2.			

Other receipts which should be recorded in this section of the account book are landlord's share of receipts and money borrowed or received on account. Recording the landlord's receipts is necessary so that the gross income for the total farm can be calculated. These are recorded on pages (B-12 and B-13) which are similar to the operator's receipts accounts.

Money borrowed in the current year is recorded on page (B-15) as cash received. When payments are made on these loans they should be recorded in the expense section, page (R-19).

Money received on accounts receivable in the form of principle or interest should be recorded on page (B-16). This may include a payment from a neighbor for seed or custom work done in the preceding year or interest received on an investment of farm cash. Non-farm earnings of interest should be recorded in the off-farm earnings section, page (B-15).

HOUSEHOLD AND PERSONAL EXPENSES

This section is convenient to record and summarize all household and personal expenses. However, in most cases it is also a necessary part of the record system because it is required for the cash balance summary. The exception to this is if the operator keeps a separate bank account for all farm transactions, in which case, it would only be necessary to record the amount of cash transferred from the farm account to the personal bank account. This record could be kept in the cash paid column of the household and personal summary, page (W-3).

SUMMARY OF FARM RECORDS

The easiest and most rewarding part of the Alberta Farm Account System is the summary of the year's records. The book is designed primarily for farm business analysis, however, a summary of receipts and expenses for income tax purposes can also be acquired from the account book.

The **summary for farm business records** may be compiled by filling in the summary section (Yellow pages) in the account book. Each page of the summary section contains a source column which tells where the information required can be found.

One part of the summary produces a static picture or snapshot consisting of a Summary of Inventory and a Net Worth Statement. This part allows an assessment of the farm business according to its total value, taking into consideration the proportion of debt and equity. It can be used to measure growth when compared to previous years' statements and as a wealth indicator when acquiring credit from a financial institution.

The other part of the summary, a Summary of Farm Earnings, shows the results of the flow of income and expenditures throughout the year. This summary gives the value of farm production, farm expenses and net earnings to capital, labor and management.

A more detailed summary can be acquired for a nominal fee, through your District Agriculturist from the "Farm Management Branch". This summary includes total farm statements similar to those above as well as enterprise accounts for each enterprise which you have accounted for during the year and request with this analysis. Included in the fee is an interpretation of this computerized summary by a member of the extension staff or the farm management staff. If you choose this latter approach, you will be required to enter the column totals from the account book on a set of input forms provided by the Branch. The information from these forms will be fed into a computer which will complete the analysis of your farm.

The **income tax summary** must provide the income and expense as required by the internal revenue service (usually on a cash basis). This is done by recording the total of the cash columns for each expense and revenue page in the account book on pages (G-1 or G-2) of the income tax section. These expense and revenue pages have a column (col. 3) telling which page of the account book each type of expense or income can be found. If the account book has been completed correctly, the completion of pages (G-1 and G-2) will provide the farm expenditure and receipts necessary for tax purposes and can be used in place of the expense and receipts section provided in the "Farmers and Fisherman's Guide".

Capital Cost forms are also provided (pages G-3 to G-7) for filing your tax return. These forms are similar to those in the "Farmers and Fisherman's Guide" and must be filled from the previous years' capital cost allowance forms. The inventory section of the account book is **not** to be used for income tax purposes.

SUMMARY

This publication was written to supplement the account book by explaining some of the theory behind a record keeping system as well as discuss accounts or entries which could cause problems. If problems still arise after reading the instructions in the account book as well as this manual, then consult a District Agriculturist who is familiar with this particular account book.

The inventory is the starting point for farm business analysis and is necessary to show the total net worth of the farm business, and also to account for any value of production which is not shown through sales of produce.

The expense and receipts sections account for the daily transactions occurring throughout the year.

The physical records provide a summary of the stock and flow of the produce and resources within the farm business.

The combination of these various types of records provide the basis for farm business analysis.

Like most new tools, the account book will probably seem awkward when you begin to use it. However, with practice from recording your transactions regularly, it should become a fast and accurate approach to keeping records for farm business analysis.

Accuracy and completeness are the keys to success when using the account book. The information gained from the year end report is only as good as that submitted by you throughout the year.

